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ANNUAL REPORT

Vornado[®] INC.

FOR THE FISCAL YEAR ENDED JANUARY 25, 1970

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DIRECTORS

FREDERICK ZISSU*, *Chairman of the Board
and of the Executive Committee*

ALFRED B. AVERELL, *Vice President, Bache
& Co., Inc., Member, New York Stock
Exchange*

DR. CHARLES M. EDWARDS, JR., *Dean,
New York University Institute of Retail
Management*

DONALD B. GOMES*, *Executive Vice President*

ALVIN C. MARTIN, *Partner, Zissu, Halper
& Martin*

MURRAY J. SIEGEL*, *President and Chief
Executive Officer*

STANLEY SIMON, *Partner, Stanley Simon and
Associates*

LEO ZWIEBACH*, *Senior Vice President*

*Members of Executive Committee

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and of the Executive Committee*

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Executive Officer*

DONALD B. GOMES, *Executive Vice President*

LEO ZWIEBACH, *Senior Vice President*

HORACE R. ZIMMERMAN, *Vice President*

SOLOMON ROGOFF, *Vice President*

EDWARD FELDMAN, *Vice President*

FRANKLIN P. HALL, *Vice President*

ALVIN C. MARTIN, *Secretary*

NORMAN POTASH, *Controller*

HERBERT ROSENBLUTH, *Treasurer*



COMPARATIVE HIGHLIGHTS

	Year Ended	
	January 25, 1970	January 26, 1969
Net sales, including leased departments	\$788,536,288	\$788,788,549
Leased department sales	28,749,389	28,335,738
Depreciation and amortization	8,978,684	7,873,143
Earnings before Federal income taxes	17,885,966	20,391,128
Federal income taxes	8,725,000	9,900,000
Net earnings	9,160,966	10,491,128
Net earnings per share of common stock	1.52	1.76
Average number of shares outstanding	6,031,524	5,956,356

TO OUR SHAREHOLDERS:

The fiscal year ended January 25, 1970 was a difficult and challenging one, with severe pressures exerted on sales and earnings.

For the year ended January 25, 1970, sales amounted to \$788,536,288, against \$788,788,549 reported for the previous year. Net earnings were \$9,160,966, as compared with \$10,491,128 for the prior year. Per share earnings for the current year amounted to \$1.52 based on an average of 6,031,524 shares of common stock outstanding during the year as compared with \$1.76 per share on an average of 5,956,356 shares outstanding in the previous year.

Not all divisions were consistent with their results for the previous year. Management's efforts will be directed to those areas where the greatest benefits can be realized for the Company.

The accelerated inflationary spiral in operating costs has had an adverse effect on retailing in general and Vornado has not been exempt from the trend.

Profit margins have been affected by increased material costs, higher labor rates, rising pilferage and greater general and administrative expenses. On the West Coast these problems were aggravated by a labor strike and the phasing out of 11 Unimart Discount Department Stores and eight Food Giant Supermarkets which had not measured up to our operating standards.

To meet the problems, mark-ups have been increased in selective categories of goods, security precautions have been tightened and the merchandising staffs have increased inventory turnover.

Electronic data processing has played an ever-increasing role in your Company's efforts towards efficiency. A computer facilities management service has been engaged and has produced substantial results towards better operational flow. There has been greater inventory control, prompter payment of accounts payable, better programming of payroll operations and more timely mailing of advertising material. New programs are being developed to further enhance the Company's operations.

The Company's program of building for long-term growth continued to move ahead.

In the East, during fiscal 1969, four new Two Guys Discount Department Stores were opened. One of these, a 115,000 square foot store, serves as one of the two anchor units in the Fairfield Mall, Chicopee, Mass., a scheduled 600,000 square foot enclosed, air conditioned, regional shopping center. The second anchor store is Forbes & Wallace, one of New England's better-known department stores.

The other three Two Guys stores opened in the East were a 110,000 square foot unit in Waterbury, Connecticut, our third in that state; the 141,000 square foot unit in Lawnside, New Jersey, the 21st in New Jersey, located strategically in the Camden/Philadelphia marketing area; and the 122,000 square foot unit in West Greece, a suburb of Rochester, New York. This is our second store in the Rochester area, the first being located in the heart of the city. It is also the sixth unit in New York State.

In the West, we opened two additional Two Guys units in March, 1969, making three in all. One is located in Garden Grove, in Orange County, California, and consists of 120,500 square feet of selling space. The other unit is in South Gate, Los Angeles County, and also contains 120,500 square feet of operating space.

In addition, three Food Giant Supermarkets and four Builders Emporiums were opened, aggregating approximately 215,000 square feet of space.

In 1970, Management plans to have a fluid program with regard to construction of Two Guys Discount Department Stores, Food Giant Supermarkets, Builders Emporiums and Foster's Freeze Drive-Ins. More units will be opened in every division, but the number will be dependent upon the state of the local and national economy. By reason of our in-house inventory of land, and our own planning and construction departments, we can turn rapidly with any increase or decrease in prosperity. We are continuing our modernization program for our stores in both the East and West.

We continued our policy of creating a strong management team by promotion from within the organization. Company operations were strengthened

during the past year by making the Vice Presidents more directly responsible for the various merchandising departments.

Edward H. Feldman, who has served the Company since 1956 in various merchandising capacities, was elected a Vice President.

Franklin P. Hall, who has been active in merchandising soft goods since he joined the Company in 1961, also was elected a Vice President.

Both Messrs. Feldman and Hall have been given increased corporate authority and responsibility.

Norman Potash, C.P.A., formerly with a leading public accounting organization, was appointed Controller in June, 1969.

The problem of employee turnover is a constant one. As an additional incentive to our personnel, the Company instituted a program of employee discounts on purchases in the Two Guys Discount Department Stores through the use of scrip. This benefit extends to the employees' families as well. An improved insurance, medical and health benefits program is under study and will probably be put into effect this year.

The Company has instituted its own credit card system and this has already increased volume above the previous credit card plan. Credit as a sales tool will be further expanded.

Our Import Divisions have expanded their facilities and now have permanent offices overseas. They will be purchasing new items and expanding their standard lines in addition to fulfilling their regular import functions.

The Company's financial picture continues strong. It renewed its 25 million dollar medium term credit line. Its financial position permitted it to acquire, through private negotiations, several large blocks of its common stock, totalling 475,600 shares. The Company has no fixed policy with regard to purchase of its own shares. However, it has considered, and will continue to consider, any offer of large blocks of its stock.

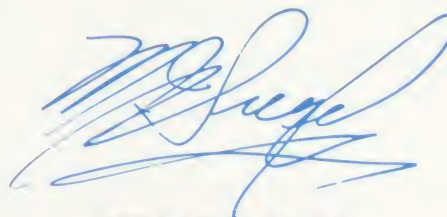
Vornado's management has every confidence in the future of the Company. During this period of unsettled business and financial conditions, management continues to extend every effort to improve its profit structure.

Management is grateful for the continuing loyal efforts of its more than 25,000 employees. It appreciates too, the cooperation accorded by its suppliers and the continued support of its shareholders.

Sincerely,



FREDERICK ZISSU
*Chairman, Board of Directors
and Executive Committee*



MURRAY J. SIEGEL
*President and Chief
Executive Officer*

April 23, 1970

REVIEW OF OPERATIONS

SALES

Net sales for the fiscal year ended January 25, 1970 amounted to \$788,536,000, as compared to \$788,789,000 for the previous fiscal period. This figure reflects the phasing out of 11 Unimart Discount Department stores and eight Food Giant Supermarkets during the fiscal year.

Leased department sales for the current fiscal year amounted to \$28,749,000 or only 3.6% of the total.

EARNINGS

Net earnings after taxes were \$9,161,000, equivalent to \$1.52 per share based on an average of 6,031,524 shares of common stock outstanding during the year. Net earnings for the previous fiscal period amount to \$10,491,000, or \$1.76 per share (5,956,356 average shares).

FINANCIAL POSITION

During the year, shareholders' equity increased from \$103,707,000 to \$110,239,000 or from \$17.19 to \$18.84 per share. Net working capital increased from \$53,565,000 to \$54,194,000.

Long-term debt, less installments due within one year, aggregating \$97,176,000 at January 25, 1970 as compared to \$90,546,000 at January 26, 1969, represents principally mortgages on real property.

OPERATING FACILITIES

During the fiscal year the following additional facilities were opened:

STORES		
STORE	SQ. FT.	LOCATION
Two Guys	122,000	Rochester, N. Y. ⁽¹⁾
Two Guys	141,000	Lawnside, New Jersey
Two Guys	110,000	Waterbury, Conn.
Two Guys	115,000	Chicopee, Mass.
Two Guys	120,500	South Gate, Calif.
Two Guys	120,500	Garden Grove, Calif.
Two Guys	12,500	Hanover, N. J. ⁽²⁾
Two Guys	9,500	Cherry Hill, N. J. ⁽³⁾
Two Guys	8,000	New London, Conn. ⁽⁴⁾
Food Giant	28,000	South Gate, Calif.
Food Giant	28,000	Garden Grove, Calif.
Food Giant	26,000	San Bernardino, Calif.
Builders Emporium	35,000	Upland, California
Builders Emporium	31,500	Saugus, California
Builders Emporium	35,000	San Bernardino, Calif.
Builders Emporium	31,500	Spring Valley, Calif.

WAREHOUSES

Two Guys	3,000	Hanover, N. J. ⁽⁵⁾
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(1) In the suburb of West Greece

(2) Addition to existing 160,000 square feet

(3) Addition to existing 165,000 square feet

(4) Addition to existing 100,000 square feet

(5) Addition to existing Warehouse Complex

During the year we closed eight Food Giant stores and 11 Unimart stores.



HOLDS the LINE AGAINST INFLATION

Discount retailing, in which Vornado's Two Guys discount department store chain holds a major position, has become the largest single segment in retailing today. Each year discounters capture a larger share of the market as they remain the most vital, energetic and vibrant form of retailing. And Vornado discount units are as glamorous and well-stocked as any conventional department store.

Vornado, a pioneer in discount retailing, was founded in 1947 during the post World War II inflationary period. It developed new concepts of operating multi-department discount operations to meet the challenge of eroding consumer purchasing power. Many of these are now standard procedure for other retail merchandisers. Today Vornado continues to fight inflation by offering its customers the lowest possible prices on a wide variety of quality merchandise. At the same time it offers the consumer public the ease of one-stop shopping in modern, attractive stores with ample free parking and convenient shopping hours.

The rapid acceleration of costs and prices throughout the nation's economy in the past year has made inflation a matter of grave public concern. As inflation takes its toll of purchasing power, discount pricing becomes increasingly important to the consumer who must now stretch each dollar, especially for necessities such as food and clothing. Vornado has always been responsive to the needs and desires of consumers in search of good quality at reasonable prices and the Company intends to meet the challenge of the current inflationary upsurge by maintaining the low price policy that has been largely responsible for its spectacular growth.

VORNADO'S PROGRAM IS GEARED TO THE CHANGING ECONOMY

From its inception Vornado recognized and acted on four fundamental changes that were occurring in the economy:

- 1) The population was booming; Vornado recognized this and planned an expansion program to grow with it.
- 2) Vornado recognized that the population was migrating to the suburbs. It adopted a policy of locating primarily in free standing units in the suburbs, on main highways. It also provided sufficient parking space for its customers, most of whom drove to its stores.
- 3) There has been a considerable increase in personal income, especially in that of the middle class which demands an ever broadening range of goods and services. Vornado has continually striven to meet that demand by offering a wide variety of merchandise in depth and at reasonable prices. The Company has charted a basic unswerving course of serving the most rapidly growing segment of the population.
- 4) Vornado recognized that the customer was becoming increasingly demanding with respect to quality and

Two Guys more for your money

MISSSES' TWO & THREE PC. NEW SPRING PANT SETS

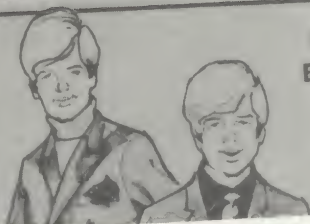
TEENS & PRE-TEENS' CASUAL HANDBAGS ONLY 1.87

Two Guys
INC.

more for your money

BOYS' MILLIKEN WOOL BLAZERS

10⁸⁸



BOYS' BETTER BURLINGTON SPRING SUITS

14⁹⁹



BOYS' JAYSHIRE FASHION COLORED DRESS SHIRTS

2 FOR \$3

BOYS' 100% POLYESTER KNIT SHIRTS

2 FOR 3⁷⁵

Two Guys
INC.

more for your money

FIELDER'S GLOVE

5¹¹

SPALDING



28.88



TO \$11.00

ROD & REEL OUTFIT

22.88

SLEEPING BAG

SLEEPING BAG

Vornado[®] INC.

HOLDS the LINE

shopping convenience. It adopted the concept of customer self-service and minimized other store services of minor importance to customers, thereby reducing the necessity of maintaining larger sales forces and other personnel. This resulted in lower labor costs per item and lower prices of merchandise across the board.

VORNADO'S OPERATIONAL POLICIES

The key to Vornado's success is efficient, low cost operation. The Company's "do-it-yourself" policy, and the principle of centralized control, has enabled it to operate profitably and maintain low prices. The centralization concept is carried through in all phases of the Company's operations — including merchandising, warehousing, advertising and real estate. Through such centralization, Vornado achieves speed and close control. Vornado's adherence to a "do-it-yourself" philosophy assures the flexibility and economy which are essential for successful operations.

MERCHANDISING PRINCIPLES

Vornado believes in a vertical operation in which each merchandising unit has a separate organization chart, chain of command and measures performance against its own planned growth rate.

Centralized merchandising controls all buying at the Company's headquarters. The stores are merchandised individually or by area whenever advisable. The merchandisers maintain a close contact with the stores, assisted by a staff of store supervisors. This makes for efficient buying as well as the offering of the right items to the consumer at the right time.

During its earlier years, many of Vornado's departments were leased. But management felt that centralized control would result in more efficient and economical operation. The Company gradually absorbed the leased departments and, in most cases, their management and personnel as well. This made for a strong middle-management team, another key to Vornado's successful growth. Today, leased departments account for less than 5% of the Company's annual sales volume.

Each divisional merchandise manager has a broad span of control in his own department, subject only to general Company policy, guidelines and direction.

This depth of experience in individual departments has been meshed into a stronger merchandising organization with inter-departmental coordination. This has evolved into merchandising and sales promotion meetings in which every manager completely reviews his departmental results — ranging from sales to stock positions. Those attending these meetings also appraise upcoming promotion plans on a group basis. Within general company guidelines, a manager may determine individual store promotional plans in line with his own judgement as to what is required. Each divisional merchandise manager is responsible for buying, sales, supervision, advertising, personnel and display activities within the space which is allotted to him in each store.

AGAINST INFLATION

A Vornado merchandiser also tests unknown items in combinations of stores to determine consumer reaction and saleability prior to introduction on a chain-wide promotional basis.

CENTRAL ADVERTISING

The advertising department serves principally as an aid for the Company's merchandisers. It is a completely self-contained unit and in all areas operates in line with the Company's "do-it-yourself" concept.

Each merchandiser plans his own promotions in cooperation with the advertising department. Regular weekly meetings are held and promotional plans and merchandising and related problems are discussed: free exchange of ideas affords every one benefits from the group thinking.

Although Vornado's advertising department is centralized, it retains complete flexibility and is geared to promote a single store or a specific area whenever circumstances call for such efforts. The self-contained department possesses broad capabilities including layout, copy writing, artists, mechanical staff, type setting and even prints and distributes its weekly 24 page tabloid. It also includes a complete graphic arts unit with a sign shop. There is also a separate division to compile and maintain mailing lists and to do media research. Including the tabloid, the department prepares and provides over 100 ads per week and these appear in some 65 newspapers. The tabloid is mailed in some areas and inserted in various newspapers or hand distributed in other areas.

The ad copy is submitted by the various department heads at the weekly merchandising meeting and every item is then reviewed by a special committee for timeliness and pricing to assure effectiveness of the Company's advertisements. Particular emphasis is placed on dramatizing the best current values for our customers.

The department also prepares banners, in-store flyers and special catalogs. It serves the merchandiser's needs, providing maximum flexibility with the shortest possible deadlines.

WAREHOUSING

Additional significant strengths for merchandisers are warehousing facilities and inventory control systems which embrace more than 1.8 million square feet on the East Coast and over 650,000 square feet of space on the West Coast. These facilities enable merchandisers to obtain adequate stocks quickly. Further, they have taken over the back room functions of most other chains, permitting Vornado to expand the selling area in each unit.

In addition, the Company is able to absorb inventories required for a certain period so that it is not dependent on manufacturers who may not be able to deliver during the peak of the season. With its fleet of more than 400 vehicles in the East alone, Vornado is able to maintain a program of regularly scheduled

more for your money

MAJOR APPLIANCE DEPARTMENT

REMOTE CONTROL PHILCO COLOR T.V.

WITH A.C.T. / Automatic Lock Tuning

2 SPEED WHIRLPOOL

ALL FABRIC AUTOMATIC WASHER

\$166

GENERAL ELECTRIC PORTACOLOR T.V.

\$149.95

more for your money

FREE 300 EXTRA TRADING STAMPS WITH THESE COUPONS

Plus YOUR MOST VALUABLE TRADING STAMPS Free

CHUCK STEAK

47¢

BANANAS

GOLDEN RIPE

12¢

POTATOES

5-49¢

CABBAGE

FRESH GREEN

12¢

HOLDS the LINE AGAINST INFLATION

deliveries to all the stores, with emergency shipments made whenever needed. All stores can be reached by truck within seven hours or less so that emergency deliveries present no problem. To keep merchandise flowing into stores as required, the Company maintains an up-to-date electronic data processing system in conjunction with direct telephone lines, Addo-X and Data-phones.

REAL ESTATE PLANNING AND DEVELOPMENT

Centralized in-house real estate, planning, engineering and construction divisions assure a constant stream of new store sites and the speedy, low cost construction of modern, attractive stores designed to harmonize architecturally with the surrounding area. This total coordination, from site to store, is a policy which began with the founding of the Company.

The real estate division evaluates sites, taking into consideration present conditions as well as future potential and maintains a "bank" of sites to satisfy the Company's prospective growth requirements.

One cardinal principle that has motivated site selection is that no store shall be located farther than an overnight run from Vornado's central warehousing facilities. Another standard is that no store shall be under 100,000 square feet and preferably it should be larger. Today, for example, there is only one store of 71,000 square feet; the others all range from 100,000 to 230,000 square feet in size.

In-house planning, engineering and construction departments work closely with the Company's real estate department.

By the time a construction contract is signed, the planning department has determined the best development program for the site, calculated the cost, and designed a building based on the occupancy cost and projected dollar volume that is estimated for the new location.

Keeping pace with construction, the planning department devises attractive, modern fixtures to display the merchandise most effectively. Flexibility becomes the byword. Displays, finishes, lighting, grouping of related departments and development of new ones, all are planned to create the image of a series of specialty shops, with color-keyed walls, sign treatments and fixtures designed to achieve complete coordination, maximum efficiency and minimum cost.

Thus the Company offers not only low prices but convenient, pleasant shopping as well. Moreover, these features are designed to keep operating costs as low as possible so that Vornado can operate profitably and still keep prices low to help combat inflation.

Over the long-term, Vornado's management sees a burgeoning population, an expanding economy and rising personal income. Strengthened by centralized management, its short chain of command backed up by capable executives and merchandisers, Vornado confidently anticipates the challenges of the future.

BUILDERS EMPORIUM
OPEN DAILY 9 AM TO 9 PM
SUNDAYS 9 AM TO 6 PM

BEDDING PLANTS
SAVE 25%

HOUSEHOLD PLASTICS SALE
YOUR CHOICE **36¢**

BUILDERS BEST PAINTS

39¢

5¢

19¢

99¢

59¢

188

59¢

99¢

FOOD GIANT
FREE! **DOUBLE** BLUE CHIP STAMPS

WHOLE BODY CHICKEN FRYERS
3 to 7 Pounds Average

55¢

59¢

15¢

43¢

VODKA
69¢

TEQUILA
39¢

ASPIRIN
3 for 1

FLOWERING PLANTS

APPLES 5 1/2
ARTICHOKES 5 1/2
GRAPEFRUIT 5 1/2
GRAPES 5 1/2

STATEMENT OF CONSOLIDATED EARNINGS

	Year Ended	
	January 25, 1970	January 26, 1969
SALES AND OTHER REVENUES:		
Net sales, including leased departments	\$788,536,288	\$788,788,549
Less sales of leased departments	<u>28,749,389</u>	<u>28,335,738</u>
Net sales, excluding leased departments	759,786,899	760,452,811
Other revenues, net	<u>6,920,743</u>	<u>7,407,017</u>
Total sales and other revenues	<u>766,707,642</u>	<u>767,859,828</u>
COSTS AND EXPENSES:		
Cost of goods sold	558,118,838	564,074,067
Operating and administrative expenses (Note 2)	<u>190,702,838</u>	<u>183,394,633</u>
Total costs and expenses	<u>748,821,676</u>	<u>747,468,700</u>
Earnings before Federal income taxes	17,885,966	20,391,128
Federal income taxes (Note 3)	<u>8,725,000</u>	<u>9,900,000</u>
Net earnings	<u>\$ 9,160,966</u>	<u>\$ 10,491,128</u>
EARNINGS PER SHARE OF COMMON STOCK (based on the average number of shares outstanding during each year —1970, 6,031,524; 1969, 5,956,356)	<u>\$1.52</u>	<u>\$1.76</u>

See accompanying notes to financial statements.

	<u>January 25, 1970</u>	<u>January 26, 1969</u>
ASSETS		
Current assets:		
Cash	\$ 12,421,206	\$ 15,437,676
Receivables	11,737,598	11,452,181
Inventories, at lower of cost or market	119,188,146	117,500,817
Prepaid expenses	<u>6,236,518</u>	<u>3,045,896</u>
Total current assets	<u>149,583,468</u>	<u>147,436,570</u>
Property and equipment, at cost (Note 2):		
Land	28,210,696	24,857,727
Buildings and parking areas	85,727,944	72,738,473
Furniture, fixtures, leasehold improvements and costs	78,342,284	77,056,389
Construction in progress	<u>3,326,928</u>	<u>4,340,973</u>
	195,607,852	178,993,562
Less accumulated depreciation and amortization	<u>50,252,261</u>	<u>45,801,572</u>
Net property and equipment	<u>145,355,591</u>	<u>133,191,990</u>
Other assets	<u>9,790,559</u>	<u>9,216,950</u>
	<u>\$304,729,618</u>	<u>\$289,845,510</u>

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

JANUARY 25, 1970

(with comparative figures at January 26, 1969)

	<u>January 25, 1970</u>	<u>January 26, 1969</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 79,007,862	\$ 78,935,227
Current installments of long-term debt (Note 2)	9,672,047	3,986,173
Notes payable	3,500,000	3,986,225
Federal income taxes (Note 3)	3,209,637	6,964,161
Total current liabilities	<u>95,389,546</u>	<u>93,871,786</u>
Long-term debt, less current installments (Note 2)	<u>97,175,660</u>	<u>90,545,828</u>
Deferred Federal income taxes (Note 3)	<u>1,924,952</u>	<u>1,720,821</u>
Stockholders' equity:		
Common stock of 4¢ par value per share.		
Authorized 7,500,000 shares; issued 6,096,530 shares and 6,031,633 shares, respectively (Note 4)	243,861	241,265
Additional capital (Note 4)	53,435,260	52,635,898
Retained earnings (Note 2)	59,990,878	50,829,912
	113,669,999	103,707,075
Less common stock held in treasury—245,600 shares, at cost	3,430,539	—
Total stockholders' equity	<u>110,239,460</u>	<u>103,707,075</u>
	<u>\$304,729,618</u>	<u>\$289,845,510</u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Year Ended	
	January 25, 1970	January 26, 1969
Balance at beginning of year	\$ 50,829,912	\$ 40,338,784
Net earnings	9,160,966	10,491,128
Balance at end of year	<u>\$ 59,990,878</u>	<u>\$ 50,829,912</u>

CONSOLIDATED SUMMARY OF CHANGES IN WORKING CAPITAL

	Year Ended	
	January 25, 1970	January 26, 1969
SOURCE OF FUNDS:		
Net earnings	\$ 9,160,966	\$ 10,491,128
Charges to earnings not requiring funds:		
Depreciation and amortization	8,978,684	7,873,143
Other	290,545	453,872
Long-term borrowings	18,069,348	24,253,632
Sale of common stock on exercise of options	801,958	—
	<u>\$ 37,301,501</u>	<u>\$ 43,071,775</u>
APPLICATION OF FUNDS:		
Additions to property and equipment, net	\$ 20,934,489	\$ 33,824,154
Reduction in long-term debt	11,439,516	7,648,574
Purchase of common stock for treasury	3,430,539	—
Other	867,819	933,923
	<u>36,672,363</u>	<u>42,406,651</u>
Increase in working capital	<u>\$ 37,301,501</u>	<u>\$ 43,071,775</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

JANUARY 25, 1970

(1) Basis of presentation:

The accompanying consolidated financial statements include the accounts of Vornado, Inc. and its subsidiaries, all of which are wholly-owned.

The financial statements for the prior year, shown for comparative purposes, have been restated to give effect

to the acquisition by Vornado, Inc. in the current year of all of the capital stock of related real estate corporations. As the financial statements of these real estate corporations had been combined with those of the Company in the prior year, the restatement had no material effect thereon.

NOTES TO FINANCIAL STATEMENTS (continued)

(2) Long-term debt:

	January 25, 1970	January 26, 1969
3.10% Junior Subordinated Note	\$ 1,986,000	\$ 2,035,000
Term Bank Loan	8,294,933	8,943,244
5¾ % Promissory Note	7,375,000	8,100,000
Other, principally real estate mortgages	89,191,774	75,453,757
	106,847,707	94,532,001
Less current installments	9,672,047	3,986,173
	<u>\$97,175,660</u>	<u>\$90,545,828</u>

The 3.10% Junior Subordinated Note due May 1, 1976 provides for annual sinking fund payments increasing from \$50,000 in 1970 to \$59,000 in 1975 and a final payment of \$1,660,000 on May 1, 1976. The note contains prepayment and repurchase provisions.

The Term Bank Loan permits borrowings to February 1, 1972 of up to \$25,000,000 to finance store and warehouse construction projects. Such borrowings are payable in eighteen quarterly installments commencing two years after the dates of the borrowing, bear interest at ¾ % over the prime rate and permit prepayment without penalty in certain events.

The 5¾ % Promissory Note due March 1, 1979 is payable in annual installments of \$725,000.

Other long-term debt consists of mortgages on real property of \$83,485,418 and notes payable to others, at interest rates for the most part between 5% and 8%.

Among other covenants contained in the various agreements, the Company must maintain consolidated working capital of \$39,000,000 to February 1, 1971 and increasing amounts thereafter and limit the aggregate of all dividend payments (other than stock dividends) and other distributions and payments to stockholders to 25% of consolidated earnings subsequent to January 31, 1966. At January 25, 1970, approximately \$5,500,000 of retained earnings was free of restrictions.

The book value of property pledged under mortgages and the Term Bank Loan amounted to approximately \$97,687,000 at January 25, 1970.

Interest and debt expense included in operating and ad-

ministrative expenses amounted to \$7,245,633 (\$6,161,812 in 1969) of which \$6,359,327 (\$5,528,019 in 1969) represented interest on long-term debt.

(3) Federal income taxes:

The provision for Federal income taxes includes deferred taxes aggregating \$191,000 (\$287,000 in 1969) principally relating to the excess of accelerated tax depreciation over straight-line depreciation used for financial statement purposes. An investment credit of \$300,000 (\$370,000 in 1969) has been applied in reduction of the provision.

(4) Stock options:

At January 25, 1970, 360,750 common shares were reserved for employee stock options. Options for 347,250 shares were outstanding at option prices ranging from \$6.11 to \$25.07 per share (aggregate maximum option price for all shares, if exercised, of \$7,022,094). Option agreements covering 283,500 shares (option prices—\$23.00 to \$25.07 per share) have been amended to permit the optionees, to the extent such options are unexercised on their expiration dates in 1973 and 1974, to purchase an equivalent number of shares at \$14.69 per share on or before January 15, 1975.

During the current year, options for 31,250 shares were granted and options for 64,897 shares were exercised at a total option price of \$801,958. The excess (\$799,362) of the total option price over the par value of the common shares issued therefor has been credited to additional capital and was the only change in that account during the year.

(5) Commitments and contingencies:

Substantially all of the leases covering retail stores and warehouses are long-term in nature with average terms of twenty to twenty-five years. Fixed annual rentals for all types of property (lease terms over three years) exclusive of taxes, insurance and other occupancy costs, will aggregate approximately \$7,200,000 during each of the next five years. Such amounts include minimum annual rentals aggregating \$1,400,000 related to leases of certain stores which have been sold for which the Company will remain contingently liable. Certain of the leases provide for additional rentals based on sales.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
VORNADO, INC.:

We have examined the consolidated balance sheet of Vornado, Inc. and subsidiaries as of January 25, 1970 and the related statements of earnings and retained earnings and the consolidated summary of changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Vornado, Inc. and subsidiaries at January 25, 1970 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated summary of changes in working capital for the year ended January 25, 1970 presents fairly the information shown therein.

Newark, New Jersey
April 23, 1970

PEAT, MARWICK, MITCHELL & CO.

†000—Omitted

Fiscal year ended

OPERATING RESULTS

Net sales, including leased departments†	.....
Net sales, exclusive of leased departments†	.....
Net sales, leased departments†	.....
Percentage of leased department sales to total	.....
Depreciation and amortization†	.....
Earnings before Federal income taxes†	.....
Federal income taxes†	.....
Net earnings †	.....
Pre-tax earnings per share ¹	.....
Net earnings per share ¹	.....
Number of shares outstanding at end of fiscal year ^{2,3}	.....

ASSETS AND CAPITAL

Net working capital†	.....
Working capital ratio	.....
Property and equipment at cost†	.....
Property and equipment after depreciation†	.....
Long-term debt†	.....
Shareholders' equity†	.....
Equity per share	.....

FACILITIES

Number of stores	.....
Total store area (square feet)	.....
Warehouse area (square feet)	.....

¹Based on average number of shares outstanding during each fiscal year, including shares issued in a pooling of interests and adjusted for stock split and stock dividend.

²Includes shares issued in a pooling of interests and adjusted for stock split and stock dividend.

³Net of common stock held in treasury.

FIVE YEAR FINANCIAL AND STATISTICAL HIGHLIGHTS

(Includes Food Giant Markets, Inc. on a pooling of interests basis)

<u>1969</u> <u>JAN. 25, 1970</u>	<u>1968</u> <u>JAN. 26, 1969</u>	<u>1967</u> <u>JAN. 28, 1968</u>	<u>1966</u> <u>JAN. 31, 1967</u>	<u>1965</u> <u>JAN. 31, 1966</u>
788,536	788,789	724,013	679,909	586,903
759,787	760,453	697,700	654,431	563,771
28,749	28,336	26,313	25,478	23,132
3.6%	3.6%	3.6%	3.7%	3.9%
8,979	7,873	7,388	6,855	6,235
17,886	20,391	18,860	20,419	21,545
8,725	9,900	8,410	8,602	9,657
9,161	10,491	10,450	11,818	11,888
\$ 2.97	\$ 3.42	\$ 3.30	\$ 3.57	\$ 3.91
\$ 1.52	\$ 1.76	\$ 1.83	\$ 2.07	\$ 2.16
5,850,930	6,031,633	5,846,806	5,668,622	5,686,668
54,194	53,565	52,899	46,589	40,626
1.57-1	1.58-1	1.69-1	1.64-1	1.70-1
195,608	178,994	146,506	129,182	101,583
145,356	133,192	107,035	97,404	74,863
97,176	90,546	77,169	75,281	55,907
110,239	103,707	90,038	78,737	70,114
\$ 18.84	\$ 17.19	\$ 15.40	\$ 13.89	\$ 12.33
141	150	143	135	123
9,750,000	10,373,000	9,657,000	9,049,000	7,718,000
2,545,000	2,542,000	2,006,000	1,776,000	1,556,000



TWO GUYS DISCOUNT DEPARTMENT STORES

46 stores in New Jersey, New York, Pennsylvania, Maryland, Connecticut, Massachusetts and California.



FOOD GIANT SUPERMARKETS

65 stores in Southern California concentrated in the Los Angeles area and San Diego.

BUILDERS EMPORIUM

BUILDERS EMPORIUM HARD GOODS STORES

24 stores located in Southern California catering primarily to the "do-it-yourself" customer, with a diversified line.



UNIMART DISCOUNT DEPARTMENT STORES

3 stores in the San Diego area, all having self-contained food supermarkets.



FOSTER'S FREEZE FRANCHISED DRIVE-INS

240 franchised drive-ins in California selling soft ice cream, hamburgers, etc.

ASSISTANT VICE PRESIDENTS

Armand Arace
Harris Baum
Julius Bernstein
Joseph Brady
Jack Cerreto
Albert H. Cohan
Lucille Coon
Dominick DiCicco
Esther Donner
Dan Dunn
Edward Gingras
Sidney W. Goldberg
Lou Gottlieb
Lewis Gross
Arthur Grunwager
Ronald I. Harris
Gary E. Hubschman
John Innes
Julius Isman
Louis Jason
Paul Jeffrey
Joseph Jerome
Irving Karol
Herbert Katz
Theodore Kicey
Bill Levine
George Lewis
Morton M. Magidson
Louis Mandell
Eric Meder
Salvatore D. Merlo
John Natale
William Newman
Michael Palumbo
Charlotte Peisner
Gerard Quelly
Umberto Reinthal
Edward Rosenbaum
Harold Rosenbaum
Nat Sacoff
Louis Schwam
Joseph Seiden
Herb Sigmund
Martin Sussman
Michael Tamburri
Robert Wachs
Murray Wasser

EXECUTIVE OFFICES

174 Passaic Street, Garfield, N.J., 07026

GENERAL COUNSEL

Zissu, Halper & Martin, New York, N.Y.

AUDITORS

Peat, Marwick, Mitchell & Co., Newark, N.J.

TRANSFER AGENT

Bankers Trust Company, New York, N.Y.

REGISTRAR

Franklin National Bank, New York, N.Y.

Vornado[®]
INC.

NEW JERSEY • CALIFORNIA • CONNECTICUT • MARYLAND • MASSACHUSETTS • NEW YORK • PENNSYLVANIA